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TAGS: MPOL, EFIN, CA

SUBJECT: GOC DEFENSE BUDGET

REF: OTTAWA 660

1. SUMMARY. REVIEW OF PLANNED EXPENDITURES FOR NATIONAL DEFENSE CONTAINED IN GOC FY 77/78 MAIN ESTIMATES SUBMITTED TO PARLIAMENT ON FEBRUARY 16 SHOW INCREASE OF 12.6 PERCENT OVER CURRENT FISCAL YEAR. CAPITAL EQUIPMENT EXPENDITURES WILL RISE IN LINE WITH GOC COMMITMENTS, BUT ESTIMATES DO NOT ALLOW FOR INCREASE IN SIZE OF ARMED FORCES. REAL INCREASE IN DEFENSE EXPENDITURES WILL BE ABOUT SAME AS CURRENTLY ESTIMATED REAL GNP GROWTH. END SUMMARY.

2. MAIN ESTIMATES FOR GOC EXPENDITURES IN FY 77/78 (ENDING MARCH 31, 1978) SUBMITTED TO PARLIAMENT ON FEBRUARY 16 CONTAIN 12.6 PERCENT INCREASE FOR NATIONAL DEFENSE (SEE REFTEL). MAIN ESTIMATES FOR FY 77/78 SHOW INCREASE OF C\$423.7 MILLION (FROM C\$3,371.1 MILLION TO LIMITED OFFICIAL USE

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C\$3,794.8 MILLION) FROM MAIN ESTIMATES FOR FY 76/77. SINCE NATIONAL DEFENSE RECEIVED SLIGHT INCREASE OF ABOUT C\$9 MILLION IN SUPPLEMENTAL ESTIMATES FOR FY 76/77, ACTUAL INCREASE IN ESTIMATED EXPENDITURES FOR FY 77/78 IS C\$414.6 MILLION.

3. REVIEW OF FY 77/78 PLANNED EXPENDITURES FOR NATIONAL

DEFENSE ELICITS FOLLOWING COMMENTS:

A. DND MANPOWER BUDGET: DND MANPOWER BUDGET REFLECTS ONLY MODEST INCREASE IN 1977. THUS, GOC BUDGET-MAKERS APPEAR TO MAKE NO PROVISIONS -- AT LEAST FOR NOW -- FOR IDEA THAT SIZE OF ARMED FORCES BE INCREASED BY SOME FIVE THOUSAND TROOPS. GOC TOTAL BUDGETARY ESTIMATES, HOWEVER, PLAN FOR THREE-SEGMENT SUPPLEMENTAL ESTIMATES TOTALING 1.18 BILLION DOLLARS, AND IF DND WISHES TO PURSUE INCREASE IN NUMBER OF TROOPS, IT COULD PRESUMABLY TRY TO OBTAIN FUNDS FROM THESE SUPPLEMENTAL ESTIMATES. MANPOWER BUDGET IS C\$1.8 BILLION OUT OF TOTAL C\$3.79 BILLION.

B. CAPITAL EQUIPMENT EXPENDITURES: GOC HAS MADE COMMITMENT TO INCREASE ITS CAPITAL EQUIPMENT PURCHASES BY APPROXIMATELY 12 PERCENT OVER INFLATION EACH OF NEXT FIVE YEARS UNTIL IT REACHES APPROXIMATELY 20 PERCENT OF TOTAL DEFENSE BUDGET. DEPENDING ON HOW ONE INTERPOLATES FIGURES IN DND BUDGET, EQUIPMENT EXPENDITURES FOR 1977 APPEAR TO HAVE INCREASED AS MUCH AS 26 PERCENT, BUT IN ANY EVENT 12 PERCENT ABOVE INFLATION FIGURE SEEMS TO HAVE BEEN FULLY ACHIEVED.

C. COMPARISON TO OTHER DEPARTMENTS: WHILE GOC NATIONAL BUDGET IS GOING UP ONLY 7.1 PERCENT, MAKING 12 PERCENT DND BUDGET INCREASE LOOK GOOD BY COMPARISON, IT SHOULD ALSO BE NOTED THAT OVERALL 7.1 PERCENT FIGURE IS REACHED BY INCLUDING REDUCTIONS IN EXPENDITURES IN OTHER MINISTRIES, SUCH AS 37.5 PERCENT DECREASE IN ENERGY, MINES AND RESOURCES MINISTRY BECAUSE OF A REDUCTION IN OIL LIMITED OFFICIAL USE

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IMPORT COMPENSATION PAYMENTS AND INDUSTRY, TRADE AND COMMERCE MINISTRY DECREASE OF 128.6 MILLION DOLLARS BECAUSE OF A REDUCTION IN CONSUMER SUBSIDIES. WHEN DND BUDGET IS COMPARED WITH OTHER MINISTRIES WHICH HAVE ALSO BEEN PERMITTED AN INCREASE, DND FIGURE IS NOT ALL THAT IMPRESSIVE. AS MENTIONED IN REFTL, FINANCE WENT UP 12.6 PERCENT, SECRETARY OF STATE 73.5 PERCENT, MANPOWER AND IMMIGRATION 35 PERCENT, CENTRAL MORTGAGE AND HOUSING CORPORATION 75.3 PERCENT, INDIAN AND NORTHERN AFFAIRS 18 PERCENT, VETERANS AFFAIRS 15.7 PERCENT AND PUBLIC WORKS 14.5 PERCENT.

D. COMPARISON TO GROWTH IN ECONOMY: ASSUMING ABOUT 7 PERCENT GROWTH IN INFLATION DURING FY 77/78, THERE WOULD BE NO REAL INCREASE IN TOTAL MAIN ESTIMATES, WHEREAS REAL GROWTH IN NATIONAL DEFENSE ESTIMATES WOULD EQUAL OR EXCEED REAL GNP GROWTH, NOW FORECAST AT ABOUT 4 PERCENT FOR CY 77.

4. IN SUM, DND BUDGET ESTIMATES WOULD APPEAR TO BE REASSURING SINCE THEY REFLECT COMMITMENTS THAT WERE MADE BY GOC FOR ANNUAL DND BUDGET INCREASES, PARTICULARLY IN CAPITAL EQUIPMENT AREA. IF THESE COMMITMENTS CONTINUE TO BE REFLECTED HONESTLY IN FUTURE BUDGETS, AS THEY ARE IN THIS ONE, LONG RANGE FINANCING FOR VARIETY OF MILITARY PROGRAMMING, RANGING FROM NEW FIGHTER AIRCRAFT TO AWACS, APPEARS TO BE PROVIDED FOR. LEARY

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